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RUEHTV/AMEMBASSY TEL AVIV IMMEDIATE 0624
RUCNDT/USMISSION USUN NEW YORK IMMEDIATE 0045
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RHMFISS/HQ USCENTCOM MACDILL AFB FL IMMEDIATE
RHEHNSC/NSC WASHDC IMMEDIATE
RHEHAAA/WHITE HOUSE WASHDC IMMEDIATE

C O N F I D E N T I A L DAMASCUS 006367

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NEA/ELA
NSC FOR ABRAMS/DORAN/SINGH
TREASURY FOR GLASER/LEBENSON
EB/ESC/TFS FOR SALOOM

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TAGS: [ECON](#) [EFIN](#) [SY](#)

SUBJECT: HIGHLIGHTING FRAGILITY OF REFORM, REGIME LOYALIST
ANNOUNCES NO REDUCTION IN SUBSIDIES

REF: A. DMS 5045

[1](#)B. DMS 5909

[1](#)C. DMS 6131

Classified By: CDA Stephen Seche, reasons 1.5 b/d

[1](#)1. (C) Summary: A regime insider recently announced that the SARG will not reduce the subsidy on diesel or other basic commodities, publicly contradicting Deputy Prime Minister for Economic Affairs Abdullah Dardari and effectively marginalizing the work of a committee of reformers tasked with developing a long-term strategy of subsidy reduction. Taken with other recent public rebukes, the latest comments indicate the current ascendancy of anti-reform elements in the SARG, who argue that the government cannot afford reform given the current political environment. End summary.

[1](#)2. (SBU) During a session of Parliament last week, Mahmoud al Abrash, speaker of Parliament and mouthpiece for the regime, publicly marginalized the work of a special committee tasked with developing a plan to gradually reduce subsidies on diesel and other basic commodities. Abrash stated that "rumors" of a possible reduction in subsidies were untrue, adding that the Regional Command, which includes the President and SARG officials with policy-making authority, had decided not to reduce subsidies on any commodities. His comments come as winter approaches and as average Syrians—who spend as much as 1/4 of their monthly income on diesel to heat their homes—are increasingly nervous about their declining purchasing power in the face of 10-15% inflation, according to unofficial figures, and the 10% decline in the value of the Syrian Pound (SYP).

[1](#)3. (C) Abdul Kader Husrieh, an economist with Ernst & Young who is one of the intellectual authors of the committee's recommendations, derided the announcement as a political decision without economic merit. He added that Abrash's comments highlight the split in the SARG between those who are trying to build a long-term agenda for reform and those who believe the SARG should act in crisis mode and forsake reforms as long as the external pressure is so severe. Other high-profile, public contradictions of the reformers indicate that the latter group is ascendant, and that reformers have less influence (ref B). Amin el Sharkawi, the Assistant UN Resident Representative in Syria who is providing technical assistance to the SARG on political and economic reform,

stated that while Dardari is primarily alone in pushing for reform, he is facing a "tidal wave" of anti-reform sentiment.

14. (SBU) The special committee, made up of reformers in and out of government, had recommended that the SARG reduce the subsidy on diesel by 5 SYP per year until the price matches the world price in 2010. In addition, the committee recommended that the SARG offset rising prices with up to a 40% increase in public sector wages and an annual cash payment to each Syrian citizen. Reformers argued that the plan was a realistic attempt to tackle the fiscally unsustainable subsidy program, in which the SARG spends approximately 220 billion SYP (3.8 billion USD) per year—almost half of its projected income in 2006—to keep the consumer cost on basic, non-agricultural commodities artificially low. The subsidy for diesel alone, which Syrians use to heat their homes and transport goods to market, costs 100 billion SYP (1.9 billion) per year according to unofficial figures, while fueling a smuggling trade that sends an estimated 20% of Syria's subsidized diesel into neighboring countries (reftel).

15. (C) Comment: Abrash's statement on subsidies comes in the context of other regressive and politically motivated SARG actions on the economy, which remind reformers as well as average Syrians that the Baath Party and security forces remain in control of the country's economic future (ref C). However, the high cost of subsidies is a looming problem with which the SARG must contend as it faces the loss of oil revenue in the mid-term. As Husrieh plainly stated, the reduction of subsidies is a medicine that the country has to take, and the longer it waits the more bitter it will taste.
SECHE